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Georgia

Summary and Conclusion

- Over the 2002 to 2009 period, Georgia increased tax revenue by 10.3 percent of GDP driven primarily by improvements in income tax and VAT revenue.
- This achievement was the result of greatly improved tax administration, a simplified tax code and procedures, better taxpayer services and infrastructure, and, most important, fewer taxes and lower rates.
- Georgia's corporate income tax rate is modestly lower than that of regional comparator countries and about 10 percentage points below that of income group comparator countries and the world average. The personal income tax rate is similar to regional comparator countries on average and below that of comparator income group and world average.
- The VAT rate is below the regional average and above that of income group comparator countries on average.
- PIT, CIT and VAT productivity is significantly above comparator group averages.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2002 to 2009, Georgia increased tax revenue by 10.3 percent of GDP with improved revenue effort from income taxes and VAT more than offsetting a reduced effort from customs duties and other taxes. Over the period:

- Corporate income tax revenue effort increased 1.8 percent of GDP.
- Personal income tax revenue effort increased by 3.9 percent of GDP.
- Revenue effort from VAT increased by 5.7 percent of GDP.
- Revenue effort from customs duties decreased by 0.9 percent of GDP.
- Revenue effort from excises increased by 1.0 percent of GDP.
- Revenue effort from other taxes declined by 1.3 percent of GDP.

Georgia: Central Government Revenue (In percent of GDP)								
	2002	2003	2004	2005	2006	2007	2008	2009
Tax Revenue	12.8%	12.3%	15.0%	19.8%	22.8%	25.8%	23.8%	23.1%
CIT	1.1%	1.2%	1.6%	1.8%	2.4%	3.1%	3.1%	2.9%
PIT	1.9%	1.9%	2.7%	2.5%	2.8%	3.1%	6.4%	5.8%
Social Tax	0.0%	0.0%	0.0%	2.7%	3.6%	4.2%	0.0%	0.0%
VAT	5.6%	5.5%	6.4%	8.5%	9.7%	11.6%	10.8%	11.3%
Customs	1.1%	0.9%	1.3%	1.1%	1.0%	0.3%	0.3%	0.2%
Excise	1.5%	1.4%	1.8%	2.5%	2.4%	2.5%	2.7%	2.5%
Other Taxes	1.6%	1.4%	1.1%	0.7%	0.0%	0.1%	0.5%	0.3%

Source: Various IMF Reports and the Georgia Ministry of Finance

Summary of Reforms

Over the 2002 to 2009 period, Georgia's revenue mobilization efforts primarily focused on key fundamental tax policy reforms supported by reform and modernization of the State Revenue Service.

The first major tax policy reform took effect in 2005. This reform simplified the tax system by reducing the number of taxes, reduced the VAT rate from 20% to 18%, introduced a flat personal tax at 12%, and eliminated a few exemptions.

A second major reform took place in 2008. This reform reduced the corporate income tax from 20% to 15%, eliminated the social tax, and increased the personal income tax from 12% to 25%. In 2009, the personal income tax rate was reduced to 20%.

Coincident with major tax policy reforms, Georgia undertook a major restructuring of the administration of taxes with the merger of the Tax Department, Customs Department and the Financial Police to create the State Revenue Service in April 2007. Considerable assistance was provided to support improved tax administration over the 2004 to 2009 period by the IMF, the European Union and USAID.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Georgia's tax system and compare it with the Central Europe and Central Asia region, other low-middle-income countries, and the rest of the world.

Revenue Performance

- Georgia's revenue effort from personal income tax is about double that of the regional, income group and world averages.
- Corporate income tax revenue effort is modestly above that of the regional average and modestly below that of income group and world averages.
- The revenue effort from the VAT is about 2 percent of GDP higher than the regional average and well above the income group and world averages.

Tax Structure

- Georgia's corporate income tax rate, at 15 percent, is modestly lower than the regional average but about 10 percentage points lower than income group and world averages.
- The PIT in Georgia is a flat tax at 20 percent which is similar to the regional average and about 5 percentage points below that of income group and world averages.

- The VAT rate, at 18 percent, is one percentage point below the regional average and above that of income group and world averages, which are in the 15.1 and 16.6 percent respectively.

Revenue Productivity

- Corporate income tax productivity, at 0.21 percent of GDP of revenue for each percentage point of tax rate, is well above regional, income group and world averages, at 0.14.
- Personal income tax productivity, at 0.25, is well above regional, income group and world averages.
- Similarly, VAT productivity, at 0.60, is significantly above regional, income group and world averages and the VAT gross compliance ratio is well above that of comparator country averages.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB/EBRD indicate that the percentage of Georgian business taxpayers “expected to give gifts in meeting with tax officials” declined from 39.25 percent in 2005 to 8.39 percent in 2008.
- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Georgia amounted to 387 hours per year in early 2010 – somewhat higher than the average of 314 hours for other E&E region countries but lower than the 448 hours per year estimated for Georgia in 2004.

ANNEX: Georgia's Collecting Taxes Indicators

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Georgia	15	3.10	.21
Central Europe and Central Asia Region	15.83	2.74	.14
Low-Middle Income Economies	24.68	3.42	.14
World	25.32	3.33	.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDP _{pc})	Maximum Tax Rate	Maximum Income Level (Multiple of GDP _{pc})
Georgia	20.00	.00	20.00	.00
Central Europe and Central Asia Region	13.34	1.08	19.37	2.16
Low-Middle Income Economies	11.35	1.28	26.76	10.36
World	11.69	.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Georgia	6.39	.25	.00	20.00
Central Europe and Central Asia Region	3.21	.19	26.72	36.37
Low-Middle Income Economies	2.48	.11	16.87	19.98
World	3.36	.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory Registration/ Filing (annual Turnover in USD)
Georgia	18.00	10.60	101.7	.60	59,087
Central Europe and Central Asia Region	19.00	8.62	69.53	.46	43,804
Low-Middle Income Economies	15.06	7.27	68.53	.47	41,954
World	16.67	6.33	63.11	.41	40,552